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THE WEEKLY OF BUSINESS AVIATION

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TRUST FUND, USER FEES PROPOSED TO FINANCE 85 PERCENT OF FAA BUDGET

Reagan Administration last week proposed a massive transfer of money from the Aviation Trust Fun and higher user taxes to finance 85 percent of FAA's budget in fiscal 1983. The budget proposal submitte to Congress calls for use of $2.015 billion currently in the Trust Fund for FAA maintenance and operation (M&O) expenses, including salaries for FAA's 47,300 employes. That represents an increase of 151 percen over the estimated $800 million in Trust Fund revenues used for M&O in fiscal 1982 and constitutes 79 pe cent of total M&O expenditures of $2.55 billion for fiscal 1983.

Use of money currently in the Trust Fund, along with revenue generated by sharply higher fuel an passenger ticket taxes described late last month by FAA Administrator J. Lynn Helms *(BA, Feb. 1/33),* woul finance 85 percent of FAA's total budget of $3.9 billion through direct taxes on the users of the nationa aviation system. In addition to the more than $2 billion for M&O, the budget proposal would use anothe $1.3 billion from the trust fund for other FAA programs: grants-in-aid for airports, $450 million; facilitie and equipment, $725 million; research and development, $134 million.

Users To Finance All FAA Costs By 1986

Increased use of Trust Fund revenues to finance the FAA's normal operating expenses has been pro posed by both Democratic and Republican administrations since the Trust Fund was created in 1970. Hov ever, the budget submitted to Congress last week is the first that contemplates the eventual financing of a FAA programs solely through aviation user taxes with no contribution from general tax revenues. Budge documents state: "During 1982-1985, user fee receipts coupled with a drawdown of the uncommitted Trus Fund balance would result in 85 percent cost recovery. In 1986-87, user fee receipts alone would financ all allocable costs."

In a two-page description of and rationale for its proposed user fees, *reprinted on the backs of Page 50 and 51,* the Administration said its proposal is part of an effort to impose user fees "where a servic provides special benefits to identifiable recipients above and beyond those which accrue to the general public Subsidizing users leads to economic inefficiencies and encourages over-use of the aviation system, thus resu ting in continual pressure to expand the system's capacity. To help break this cycle, users should be hel responsible for their fair share of the cost of operating as well as maintaining and improving the airway system."

GA Currently Paying Five Percent of 'Allocable Costs'

The budget document says the four cents per gallon tax general aviation users are currently paying o aviation gasoline "covered only about five percent of their allocable costs" in 1981. "With the revised fue taxes, general aviation users would pay about 15 percent of their allocable costs in 1983, increasing to abou 30 percent in 1987." Since only about 25 percent of GA activity is classified as personal "the majority o

(Continued on the following page)

FAA BUDGET *(Cont.)*

the burden of the increased user fees will fall on the business sector where such expenses are tax deductible," the budget states.

Department of Transportation officials said the Trust Fund diversion and higher user fees are necessary to enable FAA to proceed with its air traffic control system modernization program. Some $300 million of the $725 million earmarked for facilities and equipment in fiscal 1983 would be used for the initial stages of the modernization effort.

DOT Deputy Secretary Darrell Trent said "approval of these fees is essential" to permit funding of the Airport Development Aid Program (ADAP) and for facilities and equipment. If the Administration is unable to convince Congress to adopt the new fee schedule "we could suffer delays in rebuilding the system," Trent said.

The proposed higher user taxes on fuel and airline tickets, along with other budgetary changes reported elsewhere in this issue, will be highly controversial and are expected to generate considerable opposition from the aviation industry. At the same time, however, there is concern within the industry about the need to get the ADAP program re-established. For this reason at least some segments of the industry may be more willing to consider higher user fees than they have in the past.

FTC, EJA ABRUPTLY TERMINATE MERGER DISCUSSIONS – Flight Transportation Corp. of Minneapolis, Minn. and Executive Jet Aviation of Columbus, Ohio abruptly terminated merger discussions last Thursday—only a week after the two firms had announced they hoped to complete the merger of EJA into FTC by mid-March *(BA, Feb. 8/41).* A statement issued by FTC last Thursday said the merger agreement "has been terminated" because "differences developed concerning a variety of matters." One FTC official told *BA* initially that investment bankers had advised against the merger because it would have reduced FTC's per-share earnings by nearly 25 percent. However, William Rubin, FTC president, denied that was a consideration. He said the merger was terminated because the principals "didn't see eye to eye on a couple of matters." Despite termination of the merger with EJA, Rubin said FTC planned to proceed with its planned offering of $30 million in stock.

Paul Tibbetts, EJA president, told *BA* that in sitting down to negotiate actual details of the merger, differences of opinion developed "on an awful lot of things," including marketing methodology. Tibbetts characterized the decision to terminate the merger as "a friendly agreement to disagree." Tibbetts emphasized that EJA has no plans for merger discussions with anyone else and noted that FTC had approached EJA. Tibbetts said he and EJA's chairman and board of directors all agreed that EJA "will continue with business as usual."

CAL-COAST WITHDRAWS APPLICATION FOR CERTIFICATE AUTHORITY – Cal-Coast Airlines, a new airline recently founded by serveral former Swift Aire employes, last week asked CAB to have its application for certificate authority withdrawn without explaining the reason for the request. Cal-Coast, based in San Luis Obispo, Calif., was formed to fill the service gap created by the termination of operations by Swift Aire *(BA, Dec. 28/204).* It had applied to serve Bakersfield but was not selected for the market. One CAB source said the action does not preclude the carrier from applying for certificate authority at a later date.

FAA SEEKING $9.8 MILLION FOR DCA OVERRUN AREA – Federal Aviation Administration is requesting $9.8 million in its fiscal 1983 budget proposal to extend the runway safety overrun areas at both ends of Washington National Airport's primary runway, 18-36. FAA proposed extending the overrun areas in late 1980 and held public hearings on the draft environmental impact study for the project. A final environmental report is now being circulated within the agency and is expected to be published in 30-60 days. Plans call for extending the present 200-foot overrun area at the north end of 18-36 another 550 feet to provide a total overrun of about 750 feet. This would be accomplished by depositing fill material in an inlet called Roaches Run, a move that has been opposed by some environmental interests. At the south end, the current 500-foot overrun area would be extended 500 feet to provide a total overrun of about 1,000 feet. Construction is tentatively scheduled to begin in the fall of 1982 with completion in the fall of 1983. FAA officials stress that the extended areas would not increase the operational length of 18-36, but would only provide an increased margin of safety for aircraft currently using the facility.

Aviation User Fees

AGENCY: Department of Transportation FUNCTIONAL CODE: 402

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Budget Authority	3,412	3,063	3,903	3,889	4,165	4,365	4,610
Outlays	3,158	3,073	3,375	3,653	4,195	4,202	4,295
RECEIPTS:							
Current Law	1,194	1,268	1,474	1,670	1,878	2,108	2,344
Policy Increase	—	131*	1,187	1,350	1,548	1,742	1,946

NOTE: During 1982–1985, user fee receipts coupled with a drawdown of the uncommitted Trust Fund balance would result in 85% cost recovery. In 1986–1987, user fee receipts alone would finance all allocable costs.

* Assumes July 1, 1982 effective date.

Program Description

Because of the expiration of statutory authority at the end of 1980, no revenues are currently being deposited into the Airport and Airway Trust Fund, and many aviation taxes have expired. Currently, a 5% passenger ticket tax on scheduled air carrier flights is being deposited into the general fund of the Treasury, while a 4 cents/gallon tax on general aviation gasoline and a tire and tube tax are being deposited into the highway trust fund.

Although the Congress has historically restricted use of aviation tax revenues, all FAA capital programs (grants-in-aid to airports, facilities and equipment, and research, engineering and development) plus certain field maintenance costs have been trust fund financed. The total annual trust fund share of FAA programs typically has been about 40%.

Proposed Change

In March 1981, the Administration proposed aviation user fee legislation that would reauthorize revenue deposits to the Airport and Airway Trust Fund and institute the following user fees: 6.5% passenger ticket tax; general aviation taxes during 1981–1986 of 12 cents/gallon increasing to 36 cents/gallon on aviation gasoline and 20 cents/gallon increasing to 65 cents/gallon on jet fuel; 5% freight waybill tax; $3.00 international departure tax; and a tire and tube tax.

The March 1981 user fee structure was coupled with a proposal to finance 85% of FAA programs from the Airport and Airway Trust Fund. This percentage represents the portion of FAA capital, operating and maintenance costs clearly allocable to air carriers and general aviation.

The Administration is proposing legislation that would revise the March 1981 proposal for the passenger ticket tax and general aviation fuel taxes to the following:

	1982	1983	1984	1985	1986	1987
Passenger Ticket Tax	8%	8%	8%	8%	8%	8%
General Aviation Gasoline Tax (Cents/gallon)	12	12	14	16	18	20
General Aviation Jet Fuel Tax (Cents/gallon)	14	14	16	18	20	22

Other tax rates proposed last March would remain unchanged. In addition to recovering 85% of FAA expenses from the Trust Fund, the Administration is proposing to use an additional $27 million of Trust Fund receipts, beginning in 1983, to finance the Aviation Weather Services Program administered by the National Oceanic and Atmospheric Administration.

(Continued on the back of page 51)

Rationale

- This proposal is part of the Administration's effort to impose user fees where a service provides special benefits to identifiable recipients above and beyond those which accrue to the general public.
- Subsidizing users leads to economic inefficiencies and encourages over-use of the aviation system, thus resulting in continual pressure to expand the system's capacity. To help break this cycle, users should be held responsible for their fair share of the cost of operating as well as maintaining and improving the airways system. In the past, only small amounts of user tax revenues have been applied toward operating costs. But, clearly passengers and pilots are the beneficiaries of services provided by FAA employees such as those who man the air traffic control system and flight service stations.
- The proposed user fees are also necessary to finance increased funding for FAA-owned facilities and equipment and associated research and development. This increased funding will be used to modernize the National Airspace System and will benefit all aviation users by increasing safety while reducing fuel and delay costs.
- The gradual increase in the fuel taxes should prevent severe disruptions to general aviation activity. The 8% ticket tax restores the tax to the rate in effect during 1970–1980.
- Using the Administration's estimate of allocable costs, the 4 cents/gallon tax on aviation gasoline paid by general aviation users in 1981 covered only about 5% of their allocable costs. With the revised fuel taxes, general aviation users would pay about 15% of their allocable costs in 1983, increasing to about 30% in 1987. Even using an alternative cost allocation based on minimum services required rather than actual costs incurred by the FAA, general aviation would be paying less than 60% of its allocable costs in 1987.
- The higher tax levels on general aviation jet fuel reflect the fact that these aircraft place greater demands on the National Airspace System than do less sophisticated planes utilizing aviation gasoline.
- With only about 25% of general aviation activity and 45% of travel on air carriers classified as personal, the majority of the burden of the increased user fees will fall on the business sector where such expenses are tax deductible. Thus, the increased user fees reduce taxes payable, and the cost to most users is significantly less than the increased receipts into the Airport and Airway Trust Fund.

Effects of the Proposed Change

- The revised tax proposal coupled with the increased capital funding, including reauthorization of airport grants at $450 million annually, reflects the Administration's commitment to modernizing the National Airspace System if the users are willing to pay the allocable costs of development, acquisition, operation and maintenance.
- If the revised tax proposal is enacted, the Administration would support an increase of nearly $535 million above the 1982 enacted level for facilities, equipment and associated development. In 1987, about $1.4 billion would be authorized for the development and procurement of FAA facilities and equipment.
- The higher capital funding levels coupled with the revised tax proposal would result in an uncommitted trust fund balance in the range of $.8 to $2.3 billion during 1983–1987 compared to the $3.0 billion uncommitted balance at the end of 1981.

Reprinted from *Major Themes and Additional Budget Details—Fiscal Year 1983,* one of four publications submitted to Congress by the Reagan Administration in support of its fiscal 1983 budget proposal.

STATUS OF AIRPORT AND AIRWAY TRUST FUND
November 30, 1981

	CURRENT MONTH	FISCAL YEAR TO DATE
I. BALANCE - BEGINNING OF PERIOD	$4,581,106,963.01	$4,718,831,357.71
II. RECEIPTS:		
A. Excise Taxes (Transferred from General Fund):		
1. Any Liquid fuel other than gasoline	-0-	-0-
2. Tires used on aircraft	-0-	-0-
3. Tubes used on aircraft	-0-	-0-
4. Gasoline:		
a. Commercial 4 cents tax	-0-	-0-
b. Non-commercial 4 cents tax	-0-	-0-
c. Non-commercial 3 cents tax	-0-	-0-
5. Transportation by air, seats, berths, etc.	-0-	-0-
6. Use of international travel facilities	-0-	-0-
7. Transportation of property, cargo	-0-	-0-
8. Use of civil aircraft	-0-	-0-
Total Tax Receipts	-0-	-0-
B. Less Reimbursement to General Fund-Refund of Taxes and Estimated Tax Credits:		
1. Commercial avaiation gasoline	-0-	-0-
2. Non-commercial gasoline	-0-	-0-
3. Civil aircraft	431,131.00	431,131.00
4. Any liquid fuel other than gasoline	181,802.00	181,802.00
5. Gasoline - Retailer's tax	4,739.00	4,739.00
6. Airline Ticket Refund	-0-	-0-
Total Reimbursement for Tax Refunds	617,672.00	617,672.00
Net Tax Receipts	(617,672.00)	(617,672.00)
C. Federal Payments	-0-	-0-
D. Transfers from the General Fund	-0-	-0-
E. Interest on Investments	2,640,874.31	8,079,317.51
Net Receipts	2,023,202.31	7,461,645.51
III. EXPENDITURES:		
A. Federal Aviation Administration:		
1. Operations	(10.85)	93,999,979.15
2. Grants-in-Aid for Airports	33,874,941.88	55,518,019.51
3. Facilities and Equipment	30,583,964.27	51,459,952.59
4. Research and Development	5,658,575.50	12,302,357.45
B. Aviation Advisory Commission-Salary and Expenses	-0-	-0-
C. Interest on Refunds of Taxes	22,468.00	22,468.00
Total Expenditures	70,139,938.80	213,302,776.70
IV. BALANCE END OF PERIOD	4,512,990,226.52	4,512,990,226.52

STATEMENT OF FINANCIAL CONDITION

ASSETS:		
Undisbursed Balances:		
Airport and Airway Trust Fund (20X8103)	$ 483,250.24	
Operations	20.85	
Grants-in-Aid for Airports	(1,317,882.80)	
Facilities and Equipment	11,056,216.50	
Research and Development	1,195,621.73	
Aviation Advisory Commission-Salaries and Expenses	-0-	$ 11,417,226.52
INVESTMENT: U.S. TREASURY CERTIFICATES OF INDEBTEDNESS:		
11-5/8% maturing June 30, 1982	4,501,573,000.00	4,501,573,000.00
Total Assets		4,512,990,226.52
LIABILITIES		-0-
EQUITY:		
Excess Assets over Liabilities		$4,512,990,226.52
Total Liabilities and Equity		4,512,990,226.52